

May 24, 2010

Market Perform / Moderate Risk

Bottoming Profitability

MARKET DATA Intraday - 5/24/2010

Price	\$13.81
Exchange	NASDAQ
Target Price	NA
52 Wk Hi - Low	\$17.52 - \$10.63
EV(MM)	\$19,117.7
Market Cap(MM)	\$27,101.2
Shares Out (MM)	1,962.4
Public Mkt Float (MM)	1,698.8
Avg. Daily Vol (000)	27,601.2

BALANCE SHEET METRICS

Cash (MM)	\$11,155.0
LTD (MM)	\$3,417.0
Total Debt/Total Equity	72.30%
Debt/Capital	42.0%
Price/Book Value	4.6x
Book Value/Share	\$2.88

EARNINGS DATA (\$)

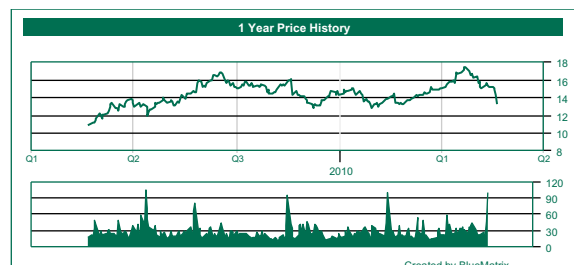
FY - Dec	2009A	2010A	2011E
Q1 (Mar)	0.38	0.15	0.30A
Q2 (Jun)	0.31	0.24	0.29
Q3 (Sep)	0.37	0.17	0.31
Q4 (Dec)	0.18	0.17	0.35
Full Year EPS	1.24	0.73	1.25
Revenue (MM)	61,101.0	52,902.0	62,324.0

VALUATION METRICS

Price/Earnings	11.1x	18.9x	11.0x
EV/Revenue	0.3x	0.4x	0.3x
Y/Y EPS Growth	NM	NM	71.2%

INDICES

DJIA	10,164.3
SP-500	1,086.4
NASDAQ	2,239.8
Russell 2000	650.4



Mixed Bag

Revenues came in \$100 million above the upper end of street estimates of \$14.8 billion but gross margins of 17.6% fell short of expectations. Large enterprise was flat sequentially while the SMB segment was up mid single digits. Demand from large accounts has bottomed but the pace of recovery is wanting. Margins were impacted by higher component costs and weaker product mix in emerging markets and public sector. However the company posted a higher level of operating profitability due to cut backs in G&A.

Gradual recovery

Without a significant recovery in corporate spending, growth rates will be tempered. The shift in focus to operating margins, in lieu of gross margins, implies that product margins will remain under pressure. We also do not see the pickup in servers and storage to offset a more modest corporate PC cycle. But cost controls should bring back predictability to earnings.

Bottom Line

Valuations are compelling at 11x C10 earnings (ex cash). If the stock holds support at current levels, risk-reward is attractive for a trade.

Risks include integration of Perot acquisition and slower PC replacement cycle in enterprise.

Dell Inc.

Income Statement

FYE: Jan	Apr-09	Jul-09	Oct-09	Jan-10	FY2010	Apr-10	Jul-10	Oct-10	Jan-11	FY2011E	Apr-11	Jul-11	Oct-11	Jan-12	FY2012E
(\$ in million, except per share data)	1Q10	2Q10	3Q10	4Q10		1Q11	2Q11E	3Q11E	4Q11E		1Q12E	2Q12E	3Q12E	4Q12E	
Total Revenue	12,342	12,764	12,896	14,900	52,902	14,874	15,200	15,750	16,500	62,324	15,750	16,000	16,750	17,250	65,750
Cost of Goods Sold	10,174	10,373	10,663	12,431	43,641	12,260	12,494	12,947	13,563	51,264	12,901	13,083	13,685	14,143	53,812
SG&A	1,613	1,571	1,501	1,780	6,465	1,623	1,702	1,748	1,782	6,856	1,748	1,744	1,809	1,777	7,078
R&D	141	149	155	179	624	167	175	173	177	692	173	176	184	190	723
Operating Income	414	671	577	510	2,172	824	828	882	978	3,513	928	997	1,072	1,140	4,137
Other Income	(2)	(42)	(63)	(41)	(148)	(68)	(40)	(30)	(25)	(163)	(25)	(25)	(25)	(25)	(100)
Pretax Income	412	629	514	469	2,024	756	788	852	953	3,350	903	972	1,047	1,115	4,037
Provision for Income Taxes	122	157	177	135	591	172	213	230	257	872	244	262	283	301	1,090
Net Income	290	472	337	334	1,433	584	576	622	696	2,478	659	709	764	814	2,947
EPS	\$ 0.15	\$ 0.24	\$ 0.17	\$ 0.17	\$ 0.73	\$ 0.30	\$ 0.29	\$ 0.31	\$ 0.35	\$ 1.25	\$ 0.33	\$ 0.36	\$ 0.38	\$ 0.41	\$ 1.47
Shares Outstanding	1,952	1,960	1,966	1,971	1,962	1,973	1,978	1,983	1,988	1,981	1,993	1,998	2,003	2,008	2,001
Margin Analysis															
Gross Margin	17.6%	18.7%	17.3%	16.6%	17.5%	17.6%	17.8%	17.8%	17.8%	17.7%	18.1%	18.2%	18.3%	18.0%	18.2%
SG&A	13.1%	12.3%	11.6%	11.9%	12.2%	10.9%	11.2%	11.1%	10.8%	11.0%	11.1%	10.9%	10.8%	10.3%	10.8%
R&D	1.1%	1.2%	1.2%	1.2%	1.2%	1.1%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Operating Margin	3.4%	5.3%	4.5%	3.4%	4.1%	5.5%	5.4%	5.6%	5.9%	5.6%	5.9%	6.2%	6.4%	6.6%	6.3%
Pretax Margin	3.3%	4.9%	4.0%	3.1%	3.8%	5.1%	5.2%	5.4%	5.8%	5.4%	5.7%	6.1%	6.3%	6.5%	6.1%
Tax Rate	29.6%	25.0%	34.4%	28.8%	29.2%	22.8%	27.0%	27.0%	27.0%	26.0%	27.0%	27.0%	27.0%	27.0%	27.0%
Net Margin	2.3%	3.7%	2.6%	2.2%	2.7%	3.9%	3.8%	3.9%	4.2%	4.0%	4.2%	4.4%	4.6%	4.7%	4.5%
Ann. Growth Analysis															
Revenues	-23%	-22%	-15%	11%	-13%	21%	19%	22%	11%	18%	6%	5%	6%	5%	5%
Gross Profit	-5%	9%	-8%	-4%	-2%	0%	-5%	3%	7%	1%	3%	2%	3%	1%	2%
Operating Income	-54%	-18%	-43%	12%	-32%	99%	23%	53%	92%	62%	13%	20%	22%	17%	18%
Net Income	-61%	-22%	-54%	-6%	-41%	99%	21%	83%	107%	71%	12%	22%	22%	16%	18%
Seq. Growth Analysis															
Revenues	-8%	3%	1%	16%		0%	2%	4%	5%		-5%	2%	5%	3%	
Gross Profit	2%	10%	-7%	11%		6%	4%	4%	5%		2%	2%	5%	1%	
Operating Income	-9%	62%	-14%	-12%		62%	1%	6%	11%		-5%	7%	8%	6%	
Net Income	-18%	62%	-29%	-1%		75%	-2%	8%	12%		-6%	7%	7%	6%	

Source: Company Reports and Rodman & Renshaw Estimates

Dell Inc.

Balance Sheet

FYE: Jan (\$ in million, except per share data)	Apr-07 1Q08	Jul-07 2Q08	Oct-07 3Q08	Jan-08 4Q08	Apr-08 1Q09	Jul-08 2Q09	Oct-08 3Q09	Jan-09 4Q09	Apr-09 1Q10	Jul-09 2Q10	Oct-09 3Q10	Jan-10 4Q10	Apr-10 1Q11
Assets													
Cash and ST investment	10,179	11,862	12,605	7,972	8,501	9,033	8,572	9,092	10,125	11,998	13,126	11,008	10,882
Accounts receivable	6,243	6,827	7,716	7,693	7,550	8,080	7,058	6,443	6,053	7,655	7,597	8,543	9,101
Inventories	764	973	1,102	1,180	1,258	1,104	1,109	867	842	839	952	1,051	1,182
Other Current Assets	2,585	2,552	2,925	3,035	3,193	3,559	4,795	3,749	2,890	3,348	3,196	3,643	3,619
Total current assets	19,771	22,214	24,348	19,880	20,502	21,776	21,534	20,151	19,910	23,840	24,871	24,245	24,784
PP&E, net	2,452	2,608	2,631	2,668	2,642	2,588	2,458	2,277	2,181	2,117	1,978	2,181	2,049
Investments	2,058	1,960	1,980	1,560	1,312	501	809	954	1,013	1,009	1,139	1,113	1,242
Goodwill and Intangible assets, net	-	-	-	2,428	1,691	1,753	2,493	2,461	2,426	2,394	2,355	5,768	5,839
Other Assets	1,263	1,272	1,421	1,025	1,872	1,789	523	657	659	698	682	345	327
Total assets	25,544	28,054	30,380	27,561	28,019	28,407	27,817	26,500	26,189	30,058	31,025	33,652	34,241
Liabilities													
ST debt	-	-	-	-	131	129	266	113	101	49	351	663	1,079
Accounts payable	9,670	10,578	11,411	11,492	10,891	11,215	9,475	8,309	7,844	9,698	9,947	11,373	11,402
Accrued liabilities	6,014	6,488	6,639	7,034	3,829	4,271	4,108	3,736	3,464	3,709	3,637	3,884	3,449
Deferred service revenue	-	-	-	-	2,518	2,572	2,572	2,701	2,732	2,831	2,926	3,040	2,950
Income Taxes Payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	15,684	17,066	18,050	18,526	17,369	18,187	16,421	14,859	14,141	16,287	16,861	18,960	18,880
Long-term liabilities	381	378	392	362	1,848	1,840	1,851	4,370	4,864	6,095	6,085	6,022	6,776
Other LT Liabilities	4,289	4,566	4,993	4,844	5,256	5,474	5,386	3,000	2,954	3,051	3,054	3,029	2,607
Total liabilities	20,354	22,010	23,435	23,732	24,473	25,501	23,658	22,229	21,959	25,433	26,000	28,011	28,263
Redeemable Common Stock	119	116	101	94	92	83	-	-	-	-	-	-	-
Total stockholders' equity	5,071	5,928	6,844	3,735	3,454	2,823	4,159	4,271	4,230	4,625	5,025	5,641	5,978
Total liability and stockholders' equity	25,544	28,054	30,380	27,561	28,019	28,407	27,817	26,500	26,189	30,058	31,025	33,652	34,241
Income Statement													
Total Revenues	14,722	14,776	15,646	15,989	16,077	16,434	15,162	13,428	12,342	12,764	12,896	14,900	52,902
Cost of Goods Sold	11,884	11,825	12,758	12,995	13,112	13,607	12,309	11,116	10,174	10,373	10,663	12,431	43,641
Operating Income	933	902	829	776	899	819	1,015	457	414	671	577	510	2,172
Interest Income	78	96	107	106	125	18	(6)	(3)	(2)	(42)	(63)	(41)	(148)
Pretax Income	1,011	998	936	882	1,024	837	1,009	454	412	629	514	469	2,024
Tax rate	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	756	746	766	679	784	616	727	351	290	472	337	334	1,433
Shares Outstanding	2,254	2,264	2,266	2,201	2,040	1,999	1,957	1,948	1,952	1,960	1,966	1,971	1,962
Liquidity													
Current ratio	1.26	1.30	1.35	1.07	1.18	1.20	1.31	1.36	1.41	1.46	1.48	1.28	1.31
Quick ratio	1.05	1.10	1.13	0.85	0.92	0.94	0.95	1.05	1.14	1.21	1.23	1.03	1.06
Management													
Sales/inventory	19.27	15.19	14.20	13.55	12.78	14.89	13.67	15.49	14.66	15.21	13.55	14.18	44.76
Sales/fixed assets	6.00	5.67	5.95	5.99	6.09	6.35	6.17	5.90	5.66	6.03	6.52	6.83	25.82
Sales/total assets	0.58	0.53	0.52	0.58	0.57	0.58	0.55	0.51	0.47	0.42	0.42	0.44	1.54
DSO	38.70	42.16	45.00	43.90	42.85	44.86	42.48	43.78	44.75	54.73	53.76	52.32	15.70
Inventory days-on-hand	5.87	7.51	7.88	8.29	8.75	7.40	8.22	7.12	7.55	7.38	8.15	7.71	2.47
Profitability													
Return on assets	11.8%	10.6%	10.1%	9.9%	11.2%	8.7%	10.5%	5.3%	4.4%	6.3%	4.3%	4.0%	16.7%
Return on equity	59.6%	50.3%	44.8%	72.7%	90.8%	87.3%	69.9%	32.9%	27.4%	40.8%	26.8%	23.7%	95.9%
Per share data													
Book value/share	2.25	2.62	3.02	1.70	1.69	1.41	2.13	2.19	2.17	2.36	2.56	2.86	3.05
Tangible book value/share	2.25	2.62	3.02	0.59	0.86	0.54	0.85	0.93	0.92	1.14	1.36	(0.06)	0.07
Operating cash flow/share													
Operating cash flow, net of capex/share													
Cash/share	4.52	5.24	5.56	3.62	4.17	4.52	4.38	4.67	5.19	6.12	6.68	5.58	5.55
Pro-forma EPS	0.34	0.33	0.34	0.31	0.38	0.31	0.37	0.18	0.15	0.24	0.17	0.17	0.73

Source: Company Reports and Rodman & Renshaw Estimates

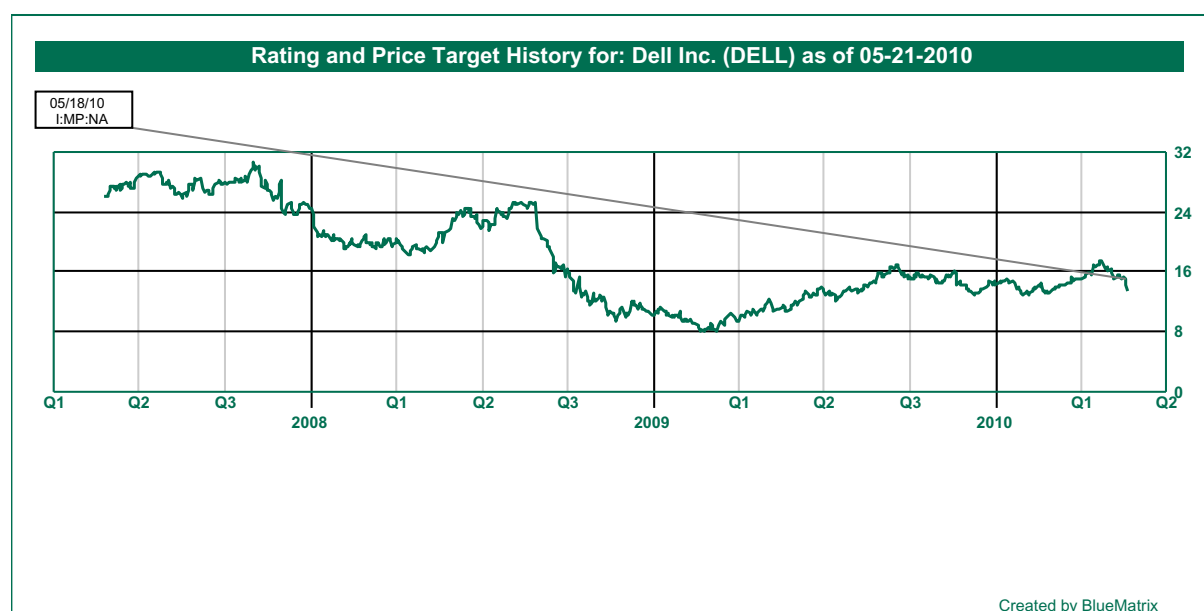
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RETURN ASSESSMENT

- **Market Outperform (Buy):** The common stock of the company is expected to outperform a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
- **Market Perform (Hold):** The common stock of the company is expected to mimic the performance of a passive index comprised of all the common stock of companies within the same sector, as defined by First Call.
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- **Speculative -** The common stock risk level is significantly greater than market risk. The stock price of these equities is exceptionally volatile.
- **Aggressive -** The common stock risk level is materially higher than market level risk. The stock price is typically more volatile than the general market.
- **Moderate -** The common stock is moderately risky, or equivalent to stock market risk. The stock price volatility is typically in-line with movements in the general market.



RATING SUMMARY

Distribution of Ratings Table				
Rating	Count	Percent	IB Serv./Past 12 Mos	
			Count	Percent
Market Outperform(MO)	119	64.00%	39	32.77%
Market Perform(MP)	43	23.10%	4	9.30%
Market Underperform(MU)	5	2.70%	0	0.00%
Under Review(UR)	19	10.20%	1	5.26%
Total	186	100%	44	100%

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